



## Supervisory Policy Manual

RE-1

Recovery Planning

V.2 – 19.06.20

This module should be read in conjunction with the [Introduction](#) and with the [Glossary](#), which contains an explanation of abbreviations and other terms used in this Manual. If reading on-line, click on blue underlined headings to activate hyperlinks to the relevant module.

### Purpose

To provide guidance to AIs on the key elements of effective recovery planning; and to set out the HKMA's approach to, and expectations in, reviewing AIs' recovery plans and the manner in which the MA's powers relating to recovery planning requirements in the Banking Ordinance ("the BO") are to be exercised.

### Classification

A statutory guideline issued by the MA under §7(3) of the BO.

### Previous guidelines superseded

RE-1 "Recovery Planning" (V.1) dated 20.06.14, and HKMA circular dated 6 July 2017 on further guidance on application of RE-1 for overseas incorporated AIs with branch operations in Hong Kong and smaller locally incorporated AIs.

### Application

To all AIs.

### Structure

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# 1. Introduction

## 1.1 Background

1.1.1 The financial crises in recent years have shown that preparation and planning for severe stress events by banks globally was not adequate before the Global Financial Crisis. In many cases, risks to viability were underestimated, and contingency planning was not sufficiently robust or detailed to equip banks in practice with a reasonable prospect of recovery.

1.1.2 To address this, the Financial Stability Board (“the FSB”) established standards relating to recovery and resolution planning in its Key Attributes of Effective Resolution Regimes for Financial Institutions (“the Key Attributes”) issued in November 2011 (which was subsequently updated in 2014)<sup>1</sup>. All member jurisdictions of the FSB (including Hong Kong) are expected to meet these new standards in order to ensure that both their public authorities and their financial institutions are better prepared to respond effectively to risk events and shocks that threaten to undermine the financial soundness of individual financial institutions. The Key Attributes specify that recovery and resolution plans should be put in place, at a minimum, for any financial institutions that could be systemically significant or critical if they fail; and that while the responsibility for developing and maintaining, and where necessary, executing the recovery plan, lies with financial institutions, the relevant authorities should have the requisite powers to mandate the implementation of recovery measures and to require institutions to regularly review and update their recovery plan.

1.1.3 The main objective of recovery planning is to ensure that financial institutions are well prepared to react quickly to, and to recover from, severe stress, through their own

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<sup>1</sup> Available at FSB’s website ([http://www.fsb.org/wp-content/uploads/r\\_141015.pdf](http://www.fsb.org/wp-content/uploads/r_141015.pdf)).



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actions. Given this objective, recovery planning should focus on the possible courses of action a financial institution may feasibly take in a range of stress situations to restore its financial strength and viability and thereby maximise its prospects for survival. In view of the nature of recovery planning, no assumption should be made that any form of public support will be available in any recovery scenario, although individual financial institutions should consider their eligibility for accessing central bank facilities as part of their recovery planning.

- 1.1.4 To provide greater transparency and certainty, and to ensure closer adherence to the Key Attributes, the BO was amended to introduce, among others, a new Part XIIA to prescribe explicit recovery planning requirements, which came into effect from 2 February 2018.
- 1.1.5 Recovery planning is one of the elements within the Key Attributes. In an extreme case where a financial institution has no reasonable prospect for recovery (i.e. the institution is no longer viable or likely to become no longer viable, and there appears little to no chance that it will be able to recover through its own actions), the focus would switch to securing an orderly resolution or liquidation of the institution. Als may refer to other regulatory and supervisory documents for more information on Hong Kong's resolution framework.<sup>2</sup>

## 1.2 Statutory requirements on recovery planning

- 1.2.1 The statutory requirements on recovery planning are set out in Part XIIA of the BO, as highlighted below:-
- §68A defines recovery plan for the purposes of that Part;

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<sup>2</sup> Please see <https://www.hkma.gov.hk/eng/key-functions/banking-stability/resolution/> for an overview.



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- §68B specifies the types of AIs to which Part XIA applies;
- §68C empowers the MA, by notice in writing, to require an AI to prepare, maintain and submit a recovery plan;
- §68D, §68E, §68F and §68G empower the MA, in certain circumstances, to impose requirements on an AI in relation to its recovery plan, to require the AI to revise or implement the plan, and to require the AI to notify the MA of certain matters relating to the implementation of the plan;
- §68H empowers the MA, in certain circumstances, to impose similar requirements in relation to recovery planning on a specified holding company of an AI; and
- §68I sets out the offences relating to non-compliance with a requirement under §68C to §68H.

1.2.2 The HKMA's expectations in exercising the MA's powers under the above BO requirements on recovery planning are set out in section 3 below.

### 1.3 Scope and coverage

1.3.1 This module draws primarily on the FSB's work on recovery and resolution planning<sup>3</sup>, and has taken into account the new Part XIA of the BO, market developments in recovery planning standards and practices, and the HKMA's experiences in implementing recovery planning requirements thus far. Section 2 of this module sets out the key elements of an effective recovery

<sup>3</sup> The FSB publications relating to recovery planning of financial institutions can be accessed at [http://www.fsb.org/2018/?policy\\_area=resolution-and-crisis-management](http://www.fsb.org/2018/?policy_area=resolution-and-crisis-management).



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plan, and describes the HKMA's expectations with regard to Als' recovery planning practices. The application of recovery planning requirements in the BO and the HKMA's approach to, and expectations in, the supervisory assessment of recovery plans<sup>4</sup> are outlined in sections 3 and 4 respectively.

1.3.2 The FSB, jointly with the other standard-setting bodies, has been extending its sector-specific guidance on the Key Attributes to cover a wider range of market participants in the financial sector, including financial market infrastructures, insurance companies and other non-bank financial institutions that are not part of a banking group. An AI that performs any role in market infrastructure or undertakes activities in financial sectors other than banking should thus ensure that relevant international developments are taken into account when preparing its recovery plan.

1.3.3 This module should be read in conjunction with the BO and other relevant modules of the Supervisory Policy Manual ("[the SPM](#)"), e.g. [CG-1](#) on corporate governance, [IC-1](#) on risk management framework, [IC-5](#) on stress-testing and the various modules on the effective management of inherent risks of Als. In case of any discrepancy between the BO and this module, the BO prevails.

## 1.4 Application

1.4.1 A recovery plan may be seen as an overarching plan for dealing with severe stress events that pose risks to an AI's viability. Its purpose is to enable the AI to restore its financial strength and viability by implementing the

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<sup>4</sup> For simplicity, a reference in this module to "recovery plan" refers to the recovery plan of an AI itself, whereas a reference to "group recovery plan" may mean the recovery plan developed at the head office, parent bank or holding company of an AI, depending on the context in which the term is used.



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relevant recovery measures set out in the plan. All AIs are therefore required to develop and maintain a recovery plan commensurate with the nature, scale and complexity of their operations and in compliance with statutory and supervisory requirements on recovery planning applicable to the AIs<sup>5</sup>.

- 1.4.2 The guidance set out in this module applies to all AIs<sup>6</sup>, in a proportionate manner, having regard to their size, structure and business mix and the systemic risks associated with their activities. Recovery planning naturally lends itself to a proportionate approach, in that for smaller AIs with relatively fewer and simpler business lines, the stress scenarios, recovery options, recovery triggers and communication plan will likewise tend to be less complex and potentially easier to develop and implement. A simpler recovery plan may thus suffice for this type of AI<sup>7</sup> (referred to as “smaller RE1 AIs” for the purposes of this module). Still, such AIs should, at a minimum, demonstrate that their recovery plan covers the key elements set out in this module (see paragraph 2.1.2). Additional guidance applicable to smaller RE1 AIs has been incorporated into this module where relevant.

<sup>5</sup> As in other areas of banking regulation, an AI is required to comply with the statutory and supervisory requirements relating to recovery planning that are applicable to the AI. For example, recovery planning requirements that relate to satisfying local regulatory capital requirements are applicable only to the locally incorporated AIs.

<sup>6</sup> See footnote 5.

<sup>7</sup> It is envisaged that smaller RE1 AIs normally include the smaller locally incorporated AIs and the Hong Kong branch of overseas incorporated AIs (“foreign bank branch”) with relatively simple business models and limited-scale business activities that exhibit all of the following characteristics:-

- The AI does not operate a significant retail banking and deposit-taking business, nor play any significant role in the local banking and financial sectors (so a D-SIB will not be qualified for this condition);
- The AI does not use any of the (more sophisticated) internal models-based approach for calculation of regulatory capital under the Banking (Capital) Rules (e.g. the IRB approach for credit risk); and
- The AI has no significant (e.g. only has limited and simple) involvements and exposures in the more complex or higher risk business activities (such as investment banking, underwriting, proprietary trading or market-making).



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- 1.4.3 Recovery plans are prepared and “owned” by AIs. It is the responsibility of each AI to develop and maintain a recovery plan that it considers to be the optimal approach for covering its operations and related entities and for stabilizing and restoring its financial resources and viability if it comes under severe stress.
- 1.4.4 Although the exact form of recovery plan will vary from AI to AI, the recovery plan should always cover how risks posed to local operations would be contained following a shock. Such risks are not necessarily limited to risks arising locally. For an AI that is part of an overseas group, the HKMA has a legitimate concern with regard to the effects on the AI of actions taken by other entities within the same banking group, wherever those actions might be taken. An AI’s recovery plan should therefore take into account the wider business of the group of which the AI is a member. In addition, the interconnectedness of financial institutions and markets also underlines the importance for AIs to assess, during the process of recovery planning, the implications and impacts of relevant market developments that may pose risks to their viability.

#### *Additional guidance for locally incorporated AIs*

- 1.4.5 The HKMA expects a locally incorporated AI to undertake recovery planning on a group basis and, generally speaking, to produce one single plan. It follows that the recovery plan for a local banking group should take account of an AI’s downstream operations, including local as well as overseas operations in the AI’s subsidiaries and branches. Consistent with a proportionate approach to recovery planning, the extent of application to the AI’s subsidiaries and branches should be commensurate with the materiality of those entities or operations to the revenue, profitability, operations or effective working of the AI or the AI’s group, and with the risks those operations and entities pose to financial stability in Hong Kong.





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- 1.4.6 The HKMA recognises however that a centralised, single group plan approach may not suit all locally incorporated AIs. In some cases, it may be more appropriate for a locally incorporated AI to conduct recovery planning also at the individual entity level alongside a group plan, if the entity in question has a high degree of financial and operational independence, as well as being systemically significant or critical to the financial stability of Hong Kong in its own right<sup>8</sup>, for example.
- 1.4.7 Some locally incorporated AIs which are members of overseas banking groups (referred to as “foreign bank subsidiaries” for the purposes of this module) may have been involved in recovery planning at group level, in response to requirements set by the group’s home regulator. Where appropriate, foreign bank subsidiaries may draw on the recovery plan developed by their parent holding company at group level, although they will nonetheless be expected to meet the standards in this module in respect of their operations in Hong Kong.
- 1.4.8 To be clear, even if a recovery plan has been developed at group level, the HKMA expects that it will still be necessary in most cases for foreign bank subsidiaries within the group to develop a local recovery plan alongside the group recovery plan, in order to supplement the group plan and to ensure the local aspects are covered in sufficient detail. Such a local plan should be centred on the local operations of the AI in Hong Kong, but should be drawn up such that the approach to recovery planning at the local level is coherent and consistent with that of the group recovery plan. Significant interactions and interdependencies between the group recovery plan and the local recovery plan should be identified, addressed and adequately documented in the AI’s local recovery plan and the group recovery plan as appropriate. These may

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<sup>8</sup> See subsections 3.4 and 3.5 of the Code of Practice [CI-1](#), “Resolution Planning – Core Information Requirements”, respectively for guidance on dependencies and the identification of critical financial functions.



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include any instances where the activation of group recovery options may potentially render some options unavailable at local level, or vice versa (also see the bullet points under paragraph 1.4.11). The treatment of the AI's operations in the group plan should be described in the AI's local recovery planning submission.

- 1.4.9 For an AI which is a foreign bank subsidiary, recovery planning will involve looking “upwards” to the holding company of the AI and also “downwards” to cover the subsidiaries and branches of the AI, in a manner commensurate with the materiality of those entities and operations to the AI's group, and with the risks those operations and entities pose to financial stability in Hong Kong.

#### *Additional guidance for overseas incorporated AIs*

- 1.4.10 Where the operations of the Hong Kong branch of an overseas incorporated AI (such a Hong Kong branch is referred to as a “foreign bank branch” for the purposes of this module) are significant in the context of (i) the banking sector in Hong Kong (this includes any AI providing significant or critical financial functions in Hong Kong)<sup>8</sup>; and/or (ii) the AI or its banking group<sup>9</sup>, the AI will be required in most cases to prepare a local recovery plan in respect of its Hong Kong operations alongside its group recovery plan. As with AIs which are foreign bank subsidiaries, the foreign bank branch of an overseas incorporated AI may draw on its group recovery plan as appropriate in developing and updating the local recovery plan.

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<sup>9</sup> An overseas incorporated AI is responsible for assessing whether its Hong Kong operations are significant to the AI or its banking group. Factors that may be considered include whether the Hong Kong operations contribute significantly to the profits or funding of the AI, or perform business activities or functions on which the AI or other group entities rely (e.g. a funding hub, centralised risk management function).



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1.4.11 For other foreign bank branches, which have limited operations locally and in the context of the wider banking group, the HKMA is mindful that the recovery options that could be executed in respect of the branch itself may be somewhat restricted. While recovery planning for a foreign bank branch will inevitably have to rely considerably on group recovery planning and actions of the overseas incorporated AI, it is essential that the AI demonstrates to the HKMA that the risks posed to the AI's local operations have been adequately considered and incorporated in the recovery planning process at both the local and group levels. This should include, but is not limited to:

- describing whether, and how, the major recovery options in the group recovery plan, if deployed, would impact the local operations either directly or indirectly;
- demonstrating how recovery plan and actions at the group level may be triggered by the occurrence of severe stress events in Hong Kong;
- describing the process for activating the group recovery plan for the AI, specifying the local Hong Kong management's role and involvement in the recovery planning process and outlining the conditions for execution of recovery options (such as the steps, estimated time and cross-border considerations); and
- illustrating how the recovery options are expected to restore the financial soundness and viability of the operations in Hong Kong.

#### *Additional guidance for AIs in a banking group*

1.4.12 A coherent, coordinated and consistent approach to recovery planning within a banking group is critical for the effective functioning of recovery planning for the wider group and its material group members. For an AI (whether



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locally incorporated or not) which is a member of a banking group, the nature and extent of interactions and integration between recovery planning at the group and local levels depend on a number of factors, e.g.:-

- the form and structure of the AI, e.g. the place of incorporation of the AI; for an overseas incorporated AI, whether it is operating a foreign bank branch or foreign bank subsidiary, or both, in Hong Kong;
- the AI's roles and functions in the context of the wider banking group (e.g. whether the AI is the holding company or a material entity in the banking group) and in the Hong Kong banking sector (e.g. whether the AI performs critical financial functions in Hong Kong); and
- the regulatory and supervisory requirements (include those of the home and host supervisors of the AI as appropriate) relating to recovery planning applicable to the AI.

1.4.13 The local recovery planning submission of an AI must adequately address the specificities of the Hong Kong operations and contain sufficient details on the interactions with, and interdependencies on, the group recovery plan (see paragraphs 1.4.8 to 1.4.11 above). In all cases, it would not be considered appropriate, for example, if a foreign bank branch or a foreign bank subsidiary solely relies on the group recovery plan where the local operations or market specificities have not been reflected adequately. If there is a divergence in the direction of the local plan and the group plan, the AI should consider the materiality of the issue and, where appropriate, consult the HKMA on its plan and proposed steps to resolve the matter.

1.4.14 If any material aspects of the recovery planning (e.g. recovery triggers, recovery options, impact assessment, implementation processes) of the Hong Kong operations



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of an AI are not documented in sufficient details at the local recovery plan but cross-refer to the group recovery plan, the HKMA would expect to have access to, and the right to review, the relevant sections of the group recovery plan in the process of its assessment of the local recovery planning of the AI.

- 1.4.15 Where considered warranted, the HKMA would notify an AI of its request for access to the relevant parts in the AI's group recovery plan as mentioned above, and expect to receive the information requested within a reasonable period of time thereafter. In case this is not practicable (e.g. there are legal impediments preventing the parent bank from disclosing certain information to the HKMA), the HKMA would consider the issue and the options available to it, which may include requiring the AI to develop a local recovery plan that is specific and adequate for the AI's local operations, and/or approach the relevant stakeholders (e.g. the home regulator or the head office of the AI) to explore possible alternatives.
- 1.4.16 If an overseas banking group operates both a foreign bank subsidiary and a foreign bank branch in Hong Kong, it is preferable that one single plan be produced covering both the subsidiary and the branch to ensure consistence and coherence. This arrangement also makes sense in that it is quite unlikely that the foreign bank branch and foreign bank subsidiary in the same banking group can operate entirely independent of each other as well as be immune to spillover of risks (financially, operationally or reputation-wise) among members of the wider banking group. The single recovery plan should consider the potential financial, operational and managerial interactions and interdependencies between the subsidiary and the branch, and the need for a coordinated response covering the banking group's operations in Hong Kong in a crisis. If the banking group proposes to develop two separate recovery plans specific to its subsidiary and branch in Hong Kong, it should first discuss the proposal including the justifications with the HKMA.



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### 1.5 Implementation

- 1.5.1 This revised module will take effect from the date of its issuance, as the revisions mainly relate to the HKMA's expectation in the exercise of powers under the new recovery planning requirements in the BO, and additional clarifications on certain aspects of recovery planning in response to the feedback of the industry<sup>10</sup>. The HKMA will monitor Als' progress in meeting the relevant requirements in the course of ongoing supervision.

## 2. Recovery planning

### 2.1 General

- 2.1.1 Recovery planning involves the identification of, and planning for the deployment of, a menu of recovery options which an AI could reliably execute when under severe stress to restore its financial strength and viability. Paragraph 1.5 of I - Annex 4 of the Key Attributes notes that:

"The recovery plan should include measures to reduce the risk profile of a firm and conserve capital, as well as strategic options, such as the divestiture of business lines and restructuring of liabilities."

- 2.1.2 A recovery plan should:

- form an integral part of an AI's risk management framework;

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<sup>10</sup> Where an AI has strong justifications for extending the specified compliance date, the AI should approach its supervisory contact at an early stage to explain the reasons and propose a workable plan to bring the AI into full compliance. However, it is envisaged that any such extension agreed to by the HKMA will be at its discretion and only in respect of some of the new or revised requirements in this module, and that the extended implementation period should be reasonable given the circumstances of the case.



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- identify and explain how the AI will monitor the need to trigger recovery actions;
- set out a full menu of credible recovery options to cope with a range of stress scenarios including both idiosyncratic and market-wide stress and addressing capital shortfalls<sup>11</sup> and liquidity pressures;
- assess the impact, timeframe for implementation and probable success of the recovery options and the associated risks;
- define the criteria (both quantitative and qualitative) for triggering the implementation of the recovery plan or individual recovery options in it;
- identify the key steps, milestones and processes for implementing the recovery options and the key management personnel involved in activation and decision-making;
- ensure that an AI has in place appropriate contingency arrangements (e.g. internal process, IT systems, clearing and settlement facilities) that enable the AI to continue to operate as it implements recovery measures;
- assess the additional requirements that may potentially be needed during crisis situations in order to maintain the AI's membership of, or continued access to, financial market infrastructures, e.g. potential pre-funding or additional collateralisation

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<sup>11</sup> Footnote 5 above refers. Whilst foreign bank branches are not subject to the regulatory capital framework of Hong Kong, it does not mean that it is prudent or practical for foreign bank branches to exclude from their local recovery planning all capital-related elements. For instance, it is possible that a foreign bank branch may play a role in the capital-related recovery options in its group recovery plan and/or be impacted by their implementation; or that a sudden and material deterioration in the level of regulatory capital of its Head Office / banking group could be a trigger for implementing certain recovery options at the levels of the Head Office and the branch.



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that may be required of the AI under stressed conditions; and

- map out a communication strategy with the authorities, public, financial markets, staff and other stakeholders to support the deployment of the recovery options.

- 2.1.3 To provide an overall context for the recovery plan, an AI should include some background information and analysis in its recovery plan. Such information should usefully serve to reflect the appropriate coverage and granularity of the recovery plan, as well as to put the key elements of the recovery plan, such as governance arrangements, recovery options and trigger framework, into perspective.
- 2.1.4 An overview of the AI's group structure, core business lines, significant legal entities, key financial information and risk profile are expected to be included as background information and analysis at a minimum.
- 2.1.5 An AI should include a compact and succinct summary in the first chapter/section of its recovery plan, capturing the key elements as described in paragraph 2.1.2. In summarising the recovery options, the AI is expected to produce an overview table setting out the AI's complete menu of recovery options, including at a minimum the various factors listed in the illustrative template in the Annex to this module. The illustrative template can be expanded to capture any additional information which the AI considers useful. However, any template adopted by an AI should be tailored to its specific needs and circumstances.
- 2.1.6 An AI should ensure that the summary section contains succinct information that can facilitate easy understanding and navigation of the recovery plan. Achieving this is important because the recovery plan is meant to be "a





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guide to the recovery of a distressed firm”<sup>12</sup>. The Board or senior management of the AI or its supervisors may rely on it to make key decisions quickly under stress.

- 2.1.7 The summary should also highlight any material changes to an AI and its recovery plan since its previous recovery planning submission. The key elements of the recovery plan should then be further elaborated in the remainder of the plan in line with the guidance provided in this module and taking account of developments in relevant international standards and best practices.

## 2.2 Governance structure and oversight

- 2.2.1 A recovery plan is a management tool developed and owned by an AI to help manage its business and restore its viability in the event of severe stress. In order for the recovery plan to be actionable at the appropriate senior management level in the event of severe stress occurring, it is vital that the recovery plan is fully integrated into the AI’s overall governance and risk management framework, from planning to execution, including:

- the development, review, approval, and ongoing maintenance of the recovery plan;
- the monitoring process for triggering the recovery plan; and
- the activation of the recovery plan.

*Development, review, approval, and ongoing maintenance of a recovery plan*

- 2.2.2 Responsibilities for the development, review and approval and for the ongoing maintenance of an AI’s recovery plan

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<sup>12</sup> Paragraph 1.5 of I - Annex 4 of the Key Attributes.



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should be clearly assigned within the AI. In particular, the AI should officially designate a key member of its senior management (e.g. from the risk or finance areas) with the responsibility for delivering an effective recovery plan, and to act as a key point of contact with the HKMA.

- 2.2.3 An AI's Board is expected to review and approve the AI's recovery plan at the time of its initial formulation, and thereafter at least on an annual basis.<sup>13</sup> The HKMA considers it essential that all members of the AI's Board understand how the AI's recovery plan can be effectively deployed as a management tool to restore financial viability in a crisis.
- 2.2.4 To ensure that local specificities are taken into account in a satisfactory manner in the planning process, local senior management should always have a key role in the governance of recovery planning in respect of local recovery planning.
- 2.2.5 This should also be the case for non-locally incorporated AIs, where the responsibility for the local recovery planning may be taken up jointly with group-level management as appropriate.
- 2.2.6 If there are significant changes to an AI's business operation or group structure, or there are any other legal

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<sup>13</sup> Further guidance on the approval and review of recovery plans are set out as follows:

- (1) For the Hong Kong operations of an overseas incorporated AI that are not significant in the context of (i) the banking sector in Hong Kong and (ii) the AI or its banking group (see paragraphs 1.4.10 and 1.4.11 above), the approval and review of the local recovery plan could be conducted by the governance body at the Head/Regional Office responsible for overseeing the Hong Kong operations together with the local management;
- (2) For an overseas incorporated AI, in case a single recovery plan covers both its local banking subsidiary and the Hong Kong branch of the AI (see paragraph 1.4.16), the recovery planning requirements applicable to both locally incorporated AIs and overseas incorporated AIs should be observed; and
- (3) For smaller RE1 AIs that are not significant in the context of the banking sector in Hong Kong where the key metrics have not changed materially year on year, the regular review of the AIs' recovery plans may focus on deciding whether the information, options and triggers in the plan remain appropriate and relevant.



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or structural changes in the AI or significant market developments which may impact the effective working of the current recovery plan, the plan should be promptly updated. The HKMA would expect to be notified in advance of any material changes being made to the AI's recovery plan and, where appropriate, a timeline for submitting a revised plan.

#### *Monitoring process for triggering a recovery plan*

- 2.2.7 An AI should establish an adequate monitoring process to ensure the effective operation of the trigger framework in its recovery plan (see recovery triggers discussion in subsection 2.4).
- 2.2.8 An AI should have reliable management information systems in place which enable management to monitor, in a timely fashion, a series of indicators which provide information of such a nature that may credibly serve to prompt discussion of potential recovery action and, at certain pre-defined levels or points, to trigger activation of the AI's recovery plan. The monitoring process should be embedded within the AI's risk management framework. The continued appropriateness of the recovery triggers should be subject to frequent regular monitoring by the AI, with the full set of information readily accessible for management review. In addition, the AI is expected to minimise any time lag in the reporting of its management information as far as reasonably practicable, in order to allow the Board and/or senior management to react to any potential trigger events at the earliest opportunity.

#### *Activating a recovery plan*

- 2.2.9 A trigger event should lead to the activation of the recovery plan, with some form of action being immediately required. However, it should not necessarily lead to an automatic deployment of the recovery options within the plan. Instead, there should be a clear process, for escalation, upon the occurrence of any trigger event to



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senior management and/or the Board to assess the scale of the threat to the AI's viability, and to agree on an appropriate course of action (see further details regarding the respective roles of the Board and senior management in paragraph 2.4.4).

- 2.2.10 The decision-making mechanism for determining the appropriate course of action should be clearly and comprehensively documented in the plan, including the identity of the individuals who will be involved in the process, the level of authority for deciding upon and initiating recovery actions, and any guiding principles or strategies for driving decision-making in a crisis.
- 2.2.11 Once the appropriate course of action has been decided upon, individual members of senior management to whom the relevant responsibility have been assigned should ensure that the selected recovery options are implemented as soon as practicable, with progress being regularly reported to the Board or the relevant Board committee of the AI.
- 2.2.12 An AI should alert the HKMA promptly of the occurrence (or expected occurrence) of a trigger event, and provide an explanation of why the event occurred (or is considered likely to occur) and other pertinent information relating to the matter (e.g. see paragraph 3.5.3). The process for issuing this notification alert to the HKMA should be documented in the recovery plan.
- 2.2.13 In establishing the process for notifying the HKMA, an AI should have regard to all statutory notification requirements applicable to the AI or its banking group under the BO (for example, §68G / §68H on notification requirements relating to an actual (or likely) breach of a recovery trigger / implementation of a recovery measure



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in its recovery plan, and §67 “Duty to report inability to meet obligations”) and other relevant regulations<sup>14</sup>.

## 2.3 Menu of recovery options

2.3.1 The main contribution of recovery planning towards improving an AI’s resilience should be in ensuring that the AI identifies and develops, to a sufficient degree, a full set of material and feasible recovery options that the AI can take on a timely basis to stabilize and restore its financial resources and viability when it comes under severe stress. These should include measures for preserving or restoring liquidity and capital levels<sup>15</sup> (and thereby going concern viability ultimately) of the AI.

2.3.2 The menu of recovery options of an AI should include options that would not normally be considered in other circumstances when risks to viability are low to moderate, for instance options that may have permanent structural or strategic implications. This could include, but is not limited to:

- selling or disposing of part (e.g. business units or subsidiaries) or all of an AI’s business and assets;
- measures to strengthen the capital position, e.g. recapitalisations after extraordinary losses and issuance of capital instruments at short notice;
- measures to secure additional liquidity from existing or new sources while ensuring sufficient diversification of funding sources and adequate availability of collateral (in terms of volume, location

<sup>14</sup> For example, these may include §3D of the Banking (Capital) Rules “Authorized institutions must notify Monetary Authority of failure to have minimum capital adequacy ratio” and Rule 14 of the Banking (Liquidity) Rules “Prescribed notification requirements for purposes of section 97I of Ordinance”.

<sup>15</sup> Also see footnote 11.



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and quality) that may be required for funding purposes;

- debt exchanges and voluntary restructuring of liabilities;
- capital conservation measures such as the lowering or suspension of dividends and payments of variable remuneration; and
- restricting new business activities.

2.3.3 The menu of options should be sufficiently diverse to deal with a full range of possible crisis situations. In order to maintain flexibility, the individual options should not be prioritised or ranked, as the selection of the most appropriate option will vary depending upon the type and severity of the stress being experienced.

2.3.4 The menu of options would vary among AIs. For smaller AIs (including foreign bank branches), the range of credible recovery options at the local level could be limited. Still, such an AI should consider an adequate range of appropriate recovery options that it may effectively deploy. Also, as noted in paragraph 2.3.1 above, an AI should always include options for addressing capital and liquidity shortfalls.

2.3.5 In determining its liquidity-related recovery options, an AI should refer to the guidance in SPM module [LM-2](#) “Sound systems and controls for liquidity risk management” on the development and maintenance of contingency funding plans for dealing with various types of liquidity crisis. The AI should examine whether its contingency funding plan is sufficient for recovery planning purposes, and review the need for developing more substantive options for deployment when under very severe stress.

2.3.6 On capital planning, the guidance in SPM module [CA-G-5](#) “Supervisory review process” sets out the HKMA’s



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expectation that an AI's capital plan should cover, among other things, a general contingency plan for dealing with divergences and unexpected events (e.g. raising additional capital, restricting business activities or using risk mitigating techniques for risk management purposes, etc.). Similarly, an AI should make use of its capital contingency planning for devising recovery options as appropriate.

- 2.3.7 Inevitably, some form of disposal option, involving the disposal of part or even all of an institution or its assets, should be included within an AI's recovery plan, for which the conditions for execution and the steps to be taken should be specified. If a disposal option has been considered but dismissed by the AI, a clear explanation should be given in the summary in the first chapter/section of its recovery plan. Please see subsection 2.8 for further details on the level of planning expected in relation to disposal options.
- 2.3.8 The focus of recovery options should be on actions that an AI itself (or other entities within its group) can take directly. It is preferable for certain AIs, especially locally incorporated AIs, to demonstrate certain level of independent recoverability, taking into account an AI's significance to the banking sector in Hong Kong (see subsection 1.4 above). If the execution of any recovery option relies on other entities within the group, the conditions for execution – especially any conditions (e.g. the regulatory and internal approvals required for effecting group financial support) that are not within the direct control of the AI – should be specified in the recovery plan.

## 2.4 Recovery triggers

- 2.4.1 The aim of triggers in recovery planning is to enable AIs to maintain or restore financial strength and viability before regulatory authorities see the need to intervene or enforce



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recovery measures<sup>16</sup>. An AI should be able to demonstrate that it is able to identify when it needs to implement the individual recovery options detailed in its recovery plan. To support this process, the AI should develop and maintain a trigger framework, which should be fully and consistently embedded within the AI's risk management framework, to prompt recovery action in a timely manner.

2.4.2 Recovery triggers should be well defined and tailored to the full range of risks faced by an AI. The threshold level for triggers should be calibrated appropriately (e.g. by use of stress-testing – see subsection 2.6 below) and designed to prevent undue delays in the implementation of recovery options, thus allowing sufficient time for an AI to take recovery actions and restore its financial strength and viability on a timely basis. The set of recovery triggers should be set out clearly in the AI's recovery plan.

2.4.3 Triggers should comprise a mix of qualitative and quantitative metrics that are most relevant to an individual AI. The set of triggers may be based on internal early warning indicators ("EWIs") used by an AI in its existing risk management frameworks<sup>17</sup>, and should be sufficiently broad and relevant for capturing the early signs of deteriorating financial position of the AI, taking into account its business model and risk profile. In identifying suitable indicators for the purposes of developing recovery triggers and data sources for tracking events that may trigger its recovery plan, the AI should consider the intrinsic characteristics and qualities of the indicators that facilitate close monitoring of an evolving situation, such as their tractability, sensitivity and forward looking capability.

<sup>16</sup> See "Guidance on Recovery Triggers and Stress Scenarios" issued by the FSB on 16 July 2013.

<sup>17</sup> EWIs are conceptually similar to recovery triggers, but are distinguished primarily by their position on the recovery timeline – an EWI alerts the AI to adverse circumstances earlier than a recovery trigger, thus better prepares the AI for a potential trigger event. Also, an AI is obligated to notify the MA of the actual or likely breach of a recovery trigger in the recovery plan under the BO but not in respect of that of an EWI.





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2.4.4 A breach of recovery trigger should not be aligned with an automatic deployment of recovery actions. Instead, it is expected to activate the escalation procedures to alert the Board or senior management of an AI in order to implement a discretionary response in accordance with the specificities of the situation. The Board should also be informed of any corresponding course of action determined by senior management and/or the relevant Board Committee (see paragraphs 2.2.8 - 2.2.10). In addition, AIs should notify the HKMA promptly of an actual or likely breach of a recovery trigger and meet other applicable notification requirements (see paragraphs 2.2.12 – 2.2.13).

2.4.5 It is important that an AI should tailor its recovery triggers to suit its own structure, business and operations. The trigger framework should capture a range of stress events of differing nature that might pose significant threat to the AI's viability directly or indirectly (e.g. spillover from negative events at the group level of the AI). An AI may, in developing and refining its trigger framework for recovery planning, refer to the relevant FSB guidance (see footnote 3 to paragraph 1.3.1) and industry best practices relating to recovery triggers. Some common examples of triggers include:

- rating downgrade (or the expectation of a downgrade);
- widening of CDS spread;
- fall in share price;
- substantial or sustained withdrawal of deposits;
- early redemption of liabilities by counterparties;
- difficulty in obtaining funding or raising capital;
- fall in regulatory capital and liquidity ratios;



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- rapid decline in profitability and asset quality;
- increased difficulties in accessing interbank funding market;
- major compliance incidents or operational issues; and
- negative press coverage.

2.4.6 Als should pre-define the thresholds for quantitative recovery triggers. Properly calibrated quantitative triggers help remove ambiguity in terms of the level beyond which the recovery plan should be activated and pre-determined procedures followed. For recovery triggers based on regulatory requirements (e.g. capital or liquidity standards), the triggers should be calibrated above the regulatory minima to ensure that an AI will have sufficient time to take recovery actions before breaching statutory requirements applicable to it.

## 2.5 Impact

2.5.1 A recovery plan should conservatively estimate how far each recovery option might help restore an AI's financial soundness and viability. This includes an estimation of its impact on the AI's capital and liquidity positions as well as the AI's profitability, franchise value and, where relevant, credit ratings.

2.5.2 When assessing the impact of recovery options, it is important that an AI does not focus purely on dealing with the immediate stress situation, but also looks to ensure that the longer term viability and stability of the institution will not be jeopardised by any short-term "quick-fix" implemented under the stressed conditions. For instance, the sale of certain operations perceived by the market as "core" business of an AI at a heavily discounted price may



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alleviate some of the immediate stresses faced by the AI, but could have damaging effects to the AI's longer term viability, and therefore may not be the most effective recovery option for the AI under certain stress scenarios.

2.5.3 In addition to estimating the potential benefits of each recovery option, an AI should also consider the associated risks (e.g. potential disruption to its normal business operations and services) that might be brought about by the deployment of the recovery options. To the extent that an AI's operations are expected to be impacted, the AI should set out how the continuity of its material services and functions can be maintained while recovery actions are being implemented, for example:

- dealing room operations, including trade booking practices, hedging strategies, custody of assets;
- payment, clearing and settlement systems; and
- key management information systems, including accounting, position keeping and risk systems.

2.5.4 It is important that any additional external requirements to which an AI may potentially become subject (e.g. those relating to maintaining its membership of any clearing and settling systems or other financial market infrastructure - see paragraph 2.1.2 above; and possible behavioural responses of its major counterparties such as increased demands for collateral) should be assessed and factored into the AI's recovery plan.

2.5.5 The interdependencies and interactions between recovery options, as well as any anticipated impact on the resolvability of an AI should be considered and set out in the recovery plan. In particular, if the execution of a particular recovery option would render any other options unavailable, or is expected to have implications for any resolution strategy devised by the resolution authority, this should be stated clearly in the recovery plan.



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2.5.6 For an AI that is part of a wider banking group, impact considerations should include any effects due to its intra-group connections, the effect on the AI of a group recovery plan being triggered in other parts of the group, and any other interdependence that may give rise to spillovers. For instance, a recovery decision at the level of the head office, parent bank or holding company of an AI to restrict a business line may directly or indirectly impact the operations or the financial soundness and the viability of the foreign bank subsidiary or branch in Hong Kong. The local recovery planning of the AI should thus take account of such possible interactions and impacts, and include appropriate recovery triggers and options to address such circumstances.

## 2.6 Stress scenarios

- 2.6.1 An AI should test the effectiveness, impact and feasibility of its recovery plan against a range of stress scenarios, including idiosyncratic and market-wide scenarios, as well as a combination of both, taking into account the AI's specific situation, strategy and positions. AIs should refer to SPM module [IC-5](#) "Stress-testing" for a description of general requirements and practices in stress-testing, and other relevant modules under the capital and liquidity sections of the SPM.
- 2.6.2 The main purpose of stress scenarios and stress-testing in the context of recovery planning is to ensure that an AI has considered thoroughly how different types of shock may threaten its ongoing viability. This should, in turn, ensure that the AI's planned recovery options are both realistic and far-reaching enough to deal with a wide range of problems which it may encounter.
- 2.6.3 The scenarios should be tailored to an AI's risk profile, reflecting the nature of the regulatory capital and liquidity requirements that are particular to the AI. It is necessary



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for the AI to test the adequacy of its recovery plan against a range of stress scenarios, as the availability and the suitability of its recovery options may shift depending on the nature and severity of the stress events that the AI may encounter. In a market-wide scenario, for example, the AI should consider its recovery options in light of the fact that more than one institution may be seeking to implement similar recovery actions at the same time under stressed market conditions, making it more difficult to secure additional liquidity or capital.

- 2.6.4 On the other hand, in an idiosyncratic scenario, an AI may find that some recovery options may pose a threat to its reputation (e.g. a suspension of dividend payment). To ensure that the recovery plan remains relevant under a variety of circumstances, an AI should therefore, as mentioned in paragraph 2.6.1, test its recovery plan against three types of scenario at a minimum: an idiosyncratic scenario, a market-wide scenario and a scenario with a combination of both components. When developing tests that combine market-wide and idiosyncratic scenarios, the inter-relationship between the two should be taken into account.
- 2.6.5 AIs are encouraged to adopt more than one scenario within each of the three scenario types, as there may be a need, for example, to test responses to both fast- and slow-moving events within a scenario type particularly for larger or more complex AIs. Consistent with the HKMA's proportionate approach to implementation, it is acceptable for smaller RE1 AIs to test at least one scenario that is considered most relevant to their individual circumstances under each of the scenario types. Such AIs may also use qualitative assessments to complement simple sensitivity and scenario analyses of specific risks for recovery planning purposes.
- 2.6.6 An AI may consider leveraging on the scenarios (as well as the impact analysis of those scenarios) developed under its existing stress-testing programme as



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appropriate. However, the scenarios suitable for recovery planning purposes will generally be of a particularly severe nature and perhaps in most cases more severe than some of the scenarios typically used under existing stress-testing programmes for assessing capital and liquidity needs. The relevance and applicability of existing stress test scenarios for the purposes of recovery planning will therefore need to be carefully considered and evaluated.

2.6.7 In a similar vein, a foreign bank subsidiary or foreign bank branch may, for the purposes of conducting stress-testing specific to Hong Kong operations in the context of recovery planning, rely on the relevant stress-testing elements in the group recovery framework if appropriate. However, the senior management of the Hong Kong operations should assess the suitability of the group recovery stress scenarios, particularly whether the stress scenarios appropriately test the risks and vulnerabilities in the context of its Hong Kong operations. If the group recovery stress scenarios are not appropriate for the local context or are not sufficiently severe to support effective recovery planning at the local level, additional stress scenarios that address local specificities must be developed and tested for recovery planning at the local level.

2.6.8 Generally speaking, reverse stress-testing scenarios, particularly those linked to specific incidents that are related to the AI's recovery triggers in its recovery plan, can be a useful starting point for developing scenarios for recovery plans. Reverse stress-testing identifies scenarios that would lead to an AI's business model becoming non-viable (i.e. these are "default" or resolution scenarios). Thus, the stress scenarios used for recovery planning purposes should be only "near-default", as the aim of recovery planning is to describe options to ensure and restore the financial strength and viability when the AI comes under severe stress.



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2.6.9 Als should ensure that the scenarios adopted address, inter alia, capital shortfalls and liquidity pressures and be severe enough to be useful in establishing recovery triggers, estimating impacts of adverse situations, and contemplating responses to a range of stress events.

2.6.10 Als should document adequate details of the stress-testing in its recovery plan, covering at least:-

- an explanation of the overall approach to stress-testing for recovery planning purposes;
- the assumptions used under each scenario;
- a high-level description of the (quantitative and qualitative) techniques used for conducting the stress tests;
- the breach of specific recovery triggers;
- quantification of the impact of each scenario on the AI or AI group, including capital, liquidity and other metrics (e.g. profitability); and
- qualitative assessment of the suitability of, and quantification of the benefits derived from, each relevant recovery option deployed under the scenarios.

2.6.11 It is also useful to include in the recovery plan a timeline of how a scenario evolves, from the occurrence of the stress event, the breach of specific recovery trigger(s), through to the point where the AI recovers with the deployment of relevant recovery measure or a combination of measures. This would facilitate the assessment of:-

- whether the scenario is relevant and sufficiently severe;



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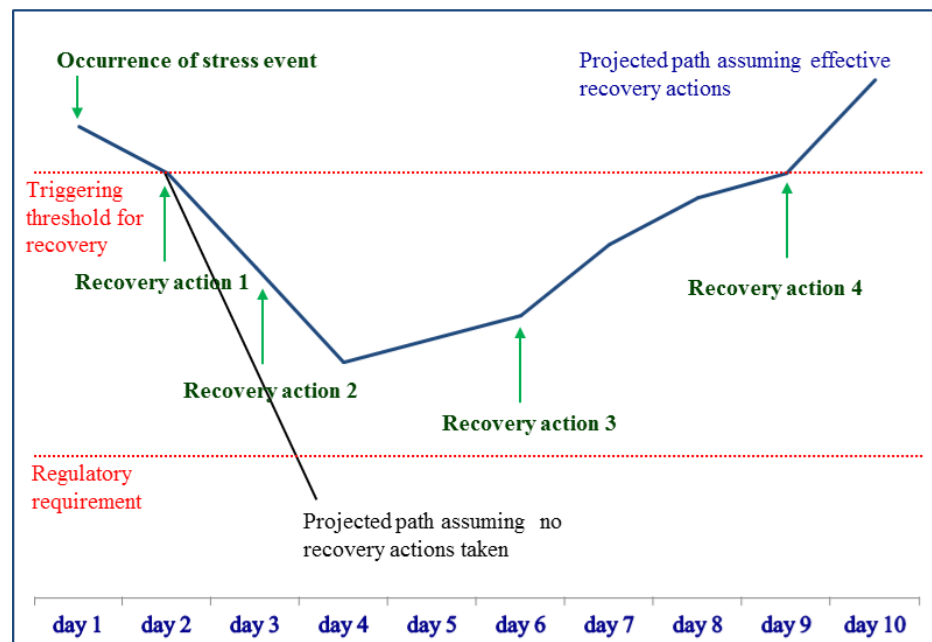
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- whether the calibrations of recovery triggers are appropriate; and
- whether sufficient number of feasible recovery options are available to deal with different stress events.

Illustrative example on projection of timeline of stress events



2.6.12 An AI should address any deficiency or impediment in its recovery plan identified from testing the plan against stress scenarios. This exercise should, in turn, strengthen the credibility and the robustness of the AI's recovery framework.





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## 2.7 Credibility of recovery options

- 2.7.1 A recovery option of an AI is credible if it is reasonably likely to be implemented when an AI comes under severe stress, and to give the expected benefits within a reasonable period of time taking account of the circumstances of the case, to enable the AI to restore its financial strength and viability on a timely basis. Effective testing of an AI's recovery plan against appropriate stress scenarios as described in subsection 2.6 should form a significant input to assessing the credibility of the AI's recovery plan. In addition, the AI should focus on, and adopt, the following elements to strengthen the credibility of its recovery plan.
- 2.7.2 Timeliness of execution is a key factor for the successful deployment (and hence credibility) of the recovery options. To this end, an AI should conservatively estimate the timeframe within which each recovery option can be implemented and take effect, identify if there are impediments to the implementation of individual options (e.g. those arising from interconnectedness within the AI or the AI group; and legal, operational or regulatory constraints), assess whether and how the impediments identified can be resolved or mitigated (see paragraph 2.7.3 below), and assess whether the AI's viability could be effectively restored by implementing an option given the time needed. Interactions among individual recovery options (e.g. execution of one option may influence the execution of another) and the ability to implement multiple options consecutively in a scenario should also be carefully assessed.
- 2.7.3 Advance planning and preparations should be devoted to resolve the impediments and risks identified to executing the recovery options. Where practicable, AIs should take advance actions to enhance the readiness of their recovery options for implementation. Where it is not possible to resolve an impediment beforehand, AIs could detail the mitigating measures (including the procedures



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and responsible parties) that could be adopted upon implementation of a recovery option to facilitate the timely realisation of the expected benefits.

2.7.4 The period for any recovery option of an AI to take effect should obviously not be so long or protracted as to effectively render the benefits of the option emerging too late to achieve recovery of the AI. The HKMA however recognises that some of the more complex and substantive recovery options (e.g. full disposal of a business line or a subsidiary) would require a longer timeframe to take full effect. In order to ensure a recovery action delivers the desired impact of restoring an AI's viability in a timely manner, the HKMA is of the view that no recovery option should take longer than 6 months to be implemented and to take expected benefits, except in rare cases that are supported by strong justifications and discussed with the HKMA in advance. In this relation, the general principle is that the timeframe for an AI to implement a particular recovery option and to realise its expected benefits should be reasonable in the sense of achieving timely restoration of the AI's viability, as assessed realistically based on the specificities of the option and those of the stress event that may trigger its implementation. Accordingly, the HKMA envisages that:-

- there should be an adequate range of recovery options, and the majority of which should reasonably be capable of being implemented and giving the expected benefits within 6 months, taking account of the preparatory and mitigating measures adopted by AIs (see paragraph 2.7.3 above);
- no recovery option that has been designed to deal with fast-moving stress events will qualify for an exception to the 6-month cap;
- some types of recovery option, e.g. disposal options and those involving capital market transactions, may likely require a timeframe longer than 6 months, as



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the underlying assets or actions may vary in liquidity and ease of execution (e.g. it will be much quicker and easier for an AI to sell off some residential properties in Hong Kong than to disposing its subsidiaries outside Hong Kong); and

- where an AI is to discuss with the HKMA a proposal to extend the 6-month cap in respect of a recovery option, the AI's proposal should be accompanied with a detailed and realistic assessment of, and justifications for, the longer timeframe proposed. These may include the estimated time and procedures needed for preparation and for procuring regulatory approvals from supervisors and other stakeholders, the assumptions adopted in estimating the (longer) timeframe needed, and any preparatory and mitigating measures in place to facilitate execution of the option.

2.7.5 A credible recovery plan should not only focus on the successful execution of the individual recovery options, but also on an AI's overall recovery capacity. An AI would benefit from taking a wider view in assessing its ability to maintain continuity of its day-to-day operations while recovery options are being implemented more generally (e.g. in terms of staffing and resourcing).

2.7.6 Last but not least, an AI's track record in implementing recovery options, or the possession of relevant experiences and expertise in doing so, may serve as useful indicators to the credibility of its recovery options. In particular, an AI should document any relevant "lessons learned" in implementing recovery options from past experience to improve the credibility of its options.



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#### 2.8 Disposal options

2.8.1 As mentioned in paragraph 2.3.7, options involving disposal of a part, and/or the whole of an AI or its business or assets are generally expected to be included in all AIs' menus of recovery options.

2.8.2 The availability, feasibility and value of disposal options could vary significantly depending on the prevailing market conditions at the time the need to activate the disposal option occurs. Whilst it is recognised that the effect of disposal may carry more uncertainty when compared to other options, an AI is nonetheless expected to plan and prepare ahead in order to ensure that a disposal is feasible. This should include, at a minimum:

- possible options for disposal, specifying which part of the (or the entire) AI or its business or assets may be considered for disposal/sale that will not jeopardize the continued operations or business model of the AI;
- decision-making process for determining disposal options;
- process and a prudent methodology for determining the value of a disposal option (see paragraph 2.8.3);
- due diligence information necessary for the disposal, and the expected time for retrieving the information necessary for executing the disposal;
- operational issues (e.g. staff, infrastructure issues);
- any legal or regulatory issues (e.g. requirement for approval/change of control/notifications);
- profile of potential purchasers and the market capacity to absorb additional businesses;



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- the worst case scenario whereby the disposal option is no longer desirable or helpful; and
- for partial disposal options, a feasibility assessment of separating the part intended for disposal from the rest of the AI's operations, with an analysis of the anticipated impact of the disposal on the AI and any remaining entities in the AI's group (however, execution of a disposal option should not render the AI or its business model non-viable).

2.8.3 For any assumptions around marketability within its disposal options, an AI should be mindful that, in all likelihood, the disposal will take place under unfavourable conditions when the AI is likely to be pressured to conduct a "fire sale". Therefore any assumptions (e.g. on asset valuation and expected benefits) should be made in a highly conservative manner.

## 2.9 Eligibility for central bank facilities

2.9.1 An AI should not assume that any public support will be forthcoming for the purpose of its recovery planning. Nevertheless, the HKMA may, at its discretion, make available contingent liquidity under the HKMA's Contingent Term Facility to an AI facing extraordinary liquidity stress that cannot be overcome through other means under specified circumstances and against adequate collateral. The terms of assistance and acceptable collateral will be set by the HKMA on a case-by-case basis having regard to the particular circumstances of the applicant AI.<sup>18</sup> In this regard, an AI could include information in its recovery plan that may

<sup>18</sup> Please refer to circular, [HKMA Liquidity Facilities Framework](#), issued by the HKMA on 26 August 2019 for details.



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facilitate the HKMA's consideration of an application for accessing the Contingent Term Facility, e.g.:

- give consideration to the circumstances in which it may require access to the Facility;
- undertake and maintain a stocktake of eligible collateral, along with an analysis of its potential drawing capacity;
- have in place the key information and documentation that may be required for accessing the Facility;
- estimate the time required to prepare relevant documentation for the HKMA to carry out any due diligence examination;
- outline the steps the AI would take before applying for access to the Facility (e.g. how it may go about using its liquidity-related recovery options to seek funding from other sources before seeking access, and how it will estimate the level of liquidity support needed); and
- identify credible potential sources of repayment of the term funding obtained under the Facility.

2.9.2 The preparation outlined above is intended to help both the AI and the HKMA plan ahead and prepare for a swift application for, and decision-making on the provision of, the Contingent Term Facility respectively. However, an AI should note that this preparation in and of itself should not be regarded as any form of “ex-ante” application for, or approval of, the Facility. In view of the nature of the Contingent Term Facility, any decision on its provision to an AI will necessarily have to be made when the given situation arises, with due consideration to the AI's potential impact on system-wide stability.



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#### 2.10 Communication plan

2.10.1 Managing communications, both internally and externally, will be a key element to the successful implementation of recovery planning.

2.10.2 A communication plan should be devised to accompany the deployment of the recovery options in an AI's recovery plan. The communication plan should recognise that there will be differing communication needs, depending on the specific action to be taken, with regard to the audience for communication; the detail and timing of information to be provided to stakeholders; and the level and form of communication among other things.

2.10.3 The recovery plan of an AI, and the communication strategy to accompany the deployment of each of the recovery options in the plan, should include, at a minimum:

- any regulatory notification requirements applicable to the AI in the circumstances (e.g. see paragraphs 2.2.12 and 2.2.13);
- the identification of key stakeholders which may vary under each recovery option;
- the strategy or approach to communication, including the preferred channel and form of communication and information on relevant contact points; and
- the assignment of the personnel responsible for communication.

2.10.4 Given that the deployment of a recovery option could itself potentially pose a threat to an AI's reputation, an AI should refer to the guidance on reputational risk management in SPM module [RR-1](#) "Reputational risk management", and assess whether any action needs to be taken to address such risk.



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2.10.5 In considering disclosure of information with regard to the deployment of an AI's recovery plan, the AI should be mindful of any provisions contained in law, regulations or listing rules regarding the disclosure of unpublished price sensitive information (or "inside" information) (such as, for example, Part XIVA of the Securities and Futures Ordinance) which may be applicable to them in the relevant circumstances.

### 3. Application of recovery planning requirements under the BO

#### 3.1 General

3.1.1 This section highlights, and endeavours to interpret the application of, some key recovery planning requirements specified in Part XIIA of the BO. It also sets out the MA's expectations in exercising the related powers under the BO. If there is any inconsistency between the BO and this module, the BO prevails.

3.1.2 §68A defines a recovery plan as either a recovery plan required under §68C(1), or, if the plan is revised under §68E, then the revised recovery plan. A reference to a recovery plan in Part XIIA thus means the latest version of recovery plan submitted by an AI under §68C(1) or §68E, whichever occurs later. To avoid doubt, all other recovery plans of the AI (including one that has been updated more recently than the one submitted under §68C(1) or §68E<sup>19</sup>) are deemed as inadmissible for the purposes of Part XIIA of the BO.

3.1.3 §68B specifies that the recovery planning requirements in Part XIIA of the BO apply to (a) an AI incorporated in Hong

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<sup>19</sup> However, paragraph 2.2.6 of this module requires AIs to notify the HKMA in advance of any material changes to their recovery plans. Upon receipt of such a notice from an AI, the HKMA may issue a notice under §68C(1) to the AI requiring it to submit the updated recovery plan.





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Kong as well as (b) an AI incorporated outside Hong Kong that operates in Hong Kong through a branch. In other words, this Part is applicable to all AIs and, as far as §68B(b) is concerned, this Part applies not only to the Hong Kong branch of an overseas incorporated AI but the AI itself as a whole. However, in the case of AIs incorporated outside Hong Kong, the general preference of the HKMA is to cooperate and coordinate with the home supervisors, where appropriate, in respect of recovery planning and implementation of recovery plans.

- 3.1.4 Where a provision in Part XIIA requires that a period specified by the MA in a notice in writing served on an AI must be “reasonable in the circumstances” (see §68E(4) and §68F(5)), or where an AI is required to perform an action “as soon as practicable” (see §68G and §68H), the HKMA expects that such a timeframe will be determined on a case-by-case basis, taking account of the circumstances of the case (e.g. a fast-moving stress event vs a slow-moving one, severity of the event, magnitude of expected impacts), related AI-specific factors and any other relevant factors prevailing at the time (e.g. risk of contagion to the wider industry).

### 3.2 §68C – Requirements to prepare, maintain and submit recovery plan; and §68D – General power to impose requirements

- 3.2.1 §68C(1) empowers the MA to serve a notice in writing on an AI requiring the AI to prepare, maintain and submit a recovery plan.
- 3.2.2 In line with the HKMA’s risk-based supervisory approach and the approach to implementing recovery planning requirements, the HKMA intends to adopt a similar phased approach towards the application of §68C(1). Priority will be given to AIs that are systemically significant (i.e. D-SIBs) or critical to the financial stability of Hong Kong (see



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footnote 8). Other factors that the HKMA may take into account in determining the timing for submission of recovery plans by AIs under §68C(1) may include:-

- whether an AI has been prioritised for resolution planning;
- the risk profile, financial and capital soundness, and robustness of the governance and risk management frameworks of an AI, taking into account the nature, scale and complexity of the AI's operations;
- whether an AI has notified the HKMA of material changes to be made / being made to its recovery plan (see paragraph 2.2.6 above);
- whether an AI or its holding company has notified the MA under §68G or §68H of the breach of a recovery trigger or a decision to implement a recovery measure in its recovery plan; and
- whether there are major developments in the market that risk inflicting significant adverse impacts on an AI or a group of AI (e.g. accelerated deterioration of the economy of a jurisdiction to which an AI has material exposures).

3.2.3 Where the MA issues a notice under §68C(1) to an AI requiring its submission of a recovery plan, the HKMA expects to allow for a submission period that is reasonable in the circumstances of the case.

3.2.4 Having said the above, an AI that has not been served a notice by the MA under §68C(1) ever, or recently, should not consider itself as outside the scope of the HKMA's requirements pertaining to the preparation and maintenance of an effective and update recovery plan and periodic submissions of the same to the HKMA. As stated in paragraph 2.2.1 above, recovery planning is a management tool that maps out the actions and



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procedures that will enable an AI to respond quickly when it comes under severe stress. It thus should be an integral part of the AI's risk management framework. In connection with this, as part of its ongoing risk-based supervisory process, the HKMA may discuss issues relating to recovery planning with an AI and request the AI to submit its recovery plan for the review of the HKMA (e.g. in onsite examinations or offsite reviews).

- 3.2.5 §68C(2) and (3) conveys the power for the MA to specify the form and standards applicable to, and the elements to be included in, the recovery plan. To ensure that the recovery plan of an AI and the measures in it are fit for purpose, the MA is also empowered under §68D to impose recovery planning requirements on an AI, having regard to the nature, scale and complexity of the AI's operations. Generally speaking, the HKMA expects AIs to develop and maintain its recovery plan in accordance with the requirements set out in sections 1 and 2 of this module, which are applicable to AIs on a proportionate basis. The HKMA, however, reserves the power to prescribe specific requirements in relation to the format and contents of an AI's recovery plan under §68C or §68D.

### 3.3 §68E – Requirement to revise recovery plan

- 3.3.1 §68E(2) empowers the MA to require an AI to address the deficiencies or impediments identified in a recovery plan of the AI, and submit the revised recovery plan within a reasonable period to the MA demonstrating how the deficiencies or impediments have been addressed. In the event that an AI has failed to rectify, or has not adequately rectified, its recovery plan as required of its own accord, the MA may compel the AI to make specific revisions to its recovery plan in accordance with §68E(3) and (4).



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#### 3.4 §68F – Requirement to implement recovery plan

- 3.4.1 The MA's power under §68F(4) to direct an AI to implement one or more recovery measures in its recovery plan within a specified period is considered as a "backstop" power. It is intended that the MA would only use such powers in limited circumstances where, in the opinion of the MA, the AI's action, or lack of action, is delaying implementation of its recovery measures, such delay imperils the continuing viability of the AI, and that implementing the recovery measures is necessary to restore the financial resources and viability of the AI and to ensure the general stability and effective working of Hong Kong's financial system.
- 3.4.2 Recognizing the serious nature of the MA's decision to issue a direction under §68F(4), the MA will notify the AI concerned in advance stating the intention to exercise the power of giving direction, the reasons for doing so, and the measures in the plan that the MA intends the AI to implement. Pursuant to §68F(3), the AI is allowed, within a period specified by the MA, to make representations in writing to the MA explaining why the MA's direction should not be issued.
- 3.4.3 An AI aggrieved by the MA's decision under §68F(4) may apply to the Banking Review Tribunal for a review of the decision under §101B(1) of the BO. However, the AI's application for review will not of itself suspend the MA's decision under §68F(4). This approach is in keeping with all other types of application for review by the Banking Review Tribunal.

#### 3.5 §68G – Requirement to notify

- 3.5.1 Pursuant to §68G(1), an AI is required to inform the MA as soon as practicable after becoming aware of the occurrence (or likely occurrence) of an event that requires



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the AI to implement a measure in its recovery plan, and provide the MA with any particulars of the trigger event required by the MA. An AI is similarly required under §68G(2) to notify the MA and to provide the required information in relation to any decision of the AI to implement a recovery measure in its recovery plan.

- 3.5.2 In practice, the HKMA may already be aware of the stress affecting an AI before a breach of its recovery trigger(s) or a decision of the AI to implement its recovery plan. AIs are nevertheless required to comply with the formal notification requirements of §68G as a safeguard to ensure that the MA is adequately apprised of the situation and in a position to consider at an earlier stage other aspects of the AI's situation. However, as mentioned in paragraph 2.4.4 above, a breach of a recovery trigger does not mandate an automatic deployment of recovery measure(s).
- 3.5.3 For an AI that has made a notification to the MA under §68G, the particulars of the matter that the HKMA may wish to seek from the AI will depend on the facts and circumstances of the case. Generally, these may include, but are not limited to, the date on which the matter occurred, key factors triggering the matter, the assessment of the Board or senior management of the AI of the impacts and whether and what recovery measure(s) are to be implemented by the AI, and (if applicable) the related timeframe and expected impact of implementing the recovery measure(s).
- 3.5.4 As time is of essence when an AI is experiencing (or is likely to experience) severe stress event, it would be expedient if an AI making a notification under §68G(1)(a) or (2)(a) could provide as much relevant information to the HKMA as practicable under the circumstances of the case alongside the notification, provided doing so will not cause undue delay in the AI's notification to the MA (see paragraph 3.1.4). In case of doubt, it would be expected that the AI should, as soon as practicable, first notify the



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HKMA of the matter required under §68G(1)(a) or (2)(a), to be followed by relevant information relating to the matter (Als are encouraged to do so even if the MA has yet to issue a notice requiring the same under §68G(1)(b) or (2)(b) so as to allow more time for dealing with the matter if necessary).

### 3.6 §68H – Holding company of authorized institution

3.6.1 §68H(1) and (2) gives the effect that §68C, §68D, §68E and §68F apply to a locally incorporated holding company of an AI as they apply to an AI, provided the conditions set out in §68H(1)(a) and (b) are met. §68H(3) and (4) imposes notification requirements in respect of the holding company similar to those specified under §68G applicable to Als.

3.6.2 In deciding whether to exercise the MA's powers under §68H in respect of a holding company of an AI, the MA will consider relevant factors in a holistic manner. These may include, but are not limited to, the following:

- whether recovery planning may be better developed and maintained at the holding company (e.g. there are financial, operational and other interdependencies between the AI and other entities within the wider group that could be better managed by recovery planning at the holding company level);
- whether the holding company is better placed to respond to a crisis given its resources and any other responsibilities of the holding company that may have towards the AI (e.g. commitment to provide capital or liquidity in times of stress to the AI);
- whether there are significant interactions and dependencies between the group-level and local-level recovery plans (e.g. there are instances where



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the activation of group recovery options may potentially render some options unavailable at local level, or vice versa);

- whether the AI's recovery plan has leveraged significantly on that of the holding company, or the AI relies on the recovery plan of its holding company and does not have a recovery plan at entity level; and
- whether (and the extent to which) the HKMA's group-wide approach to supervision of locally incorporated AIs and consolidated supervision are applicable in respect of the AI or AI group<sup>20</sup>.

### 3.7 §68I – Offences relating to recovery planning

- 3.7.1 §68I sets out the applicable offences if an AI or a relevant holding company of an AI, without reasonable excuse, fails to comply with a requirement under §68C, §68D, §68E, §68F, §68G or §68H, as the case may be.

## 4. Supervisory assessment of recovery plans

### 4.1 General

- 4.1.1 This section sets out the HKMA's approach to, and expectations in, reviewing AIs' recovery plans.

### 4.2 Assessment approach

- 4.2.1 The HKMA will review, on a regular basis, the effectiveness and credibility of an AI's recovery plan, the

<sup>20</sup> For guidance, see SPM module [CS-1 "Group-wide Approach to Supervision of Locally Incorporated Authorized Institutions"](#).



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extent to which the plan reflects and is aligned with the guidance in this module, and compliance with regulatory requirements applicable to the AI, during its off-site reviews and/or on-site examinations of the AI. In conducting its review, the HKMA will have regard to the following:

- the degree of integration of the recovery planning process into the AI's risk management framework;
- the robustness of the AI's governance framework, including the level of understanding and involvement of the AI's Board and/or senior management in the recovery plan;
- the comprehensiveness and clarity of the escalation process and decision-making mechanism upon trigger of a recovery plan, and the notification arrangements and communication plan with stakeholders, including the HKMA;
- the capability of the AI's management information system to enable timely monitoring of recovery triggers, and to provide full sets of information in a timely manner;
- the appropriateness of recovery triggers, stress scenarios and recovery options developed in respect of the recovery plan;
- the credibility of the assumptions underpinning the recovery plan;
- the comprehensiveness of the recovery plan, in particular whether a suitably broad range of recovery options has been considered;
- the execution readiness and feasibility of each recovery option; and





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- whether the recovery planning process is adequately resourced by the AI in terms of staffing and expertise, with sufficient Board and senior management ownership and oversight.

4.2.2 The HKMA will expect AIs to submit their recovery plans for its review regularly, and whenever the HKMA deems it necessary. In reviewing and interpreting individual AIs' plans, the HKMA will be mindful of the need to take into account the nature, scale and complexity of the AI's operations, and to take a proportionate approach to the review.

4.2.3 In order to arrive at a comprehensive assessment of an AI's recovery planning, the HKMA may request additional information from the AI where the HKMA deems it necessary.

4.2.4 Board and senior management understanding is essential to an AI's recovery planning process, as the AI has to be able to utilise the plan swiftly and effectively to manage a crisis situation. As part of the supervisory assessment process, the HKMA may engage in discussions with the Board and/or senior management of the AI on its recovery planning and the governance framework and policies and processes supporting it.

4.2.5 The HKMA may ask to see additional materials to help gauge the level of Board and senior management understanding of the recovery plan and of the degree of its integration into an AI's risk management framework. This may include, for example, relevant materials presented to the AI's Board for the review and sign off of the recovery plan, or in respect of information for monitoring the status of the AI's trigger framework.

4.2.6 The HKMA will review the execution readiness and the feasibility of each recovery option. To ensure that an AI's recovery plan is comprehensive, the HKMA may ask the AI to test its recovery options against scenarios



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determined by the HKMA. The AI may also be requested to explore additional recovery options not considered in its original recovery plan submission, if its menu of recovery options is assessed to be incomplete.

- 4.2.7 AIs that are members of overseas banking groups should be prepared to submit the relevant sections of their group recovery plan to assist the HKMA's assessment of recovery planning in relation to their Hong Kong operations. In any case, the envisaged effect of planned actions at the group level on local operations should have already been summarised in the AI's own recovery plan submission. Where the HKMA is not satisfied that the group recovery plan adequately covers its Hong Kong operations, the foreign bank branch or foreign bank subsidiary will be required to supplement the group plan covering local specificities, or develop a local recovery plan, as mentioned in paragraph 1.4.15 above.
- 4.2.8 The HKMA, as the home or host supervisor of AIs, may share or seek information, or exchange views on prudential concerns, relating to the AIs' recovery planning with relevant overseas banking supervisors. These will be conducted in accordance with established home-host cooperation arrangements between the HKMA and overseas banking supervisors (such as memoranda of understanding, supervisory colleges and bilateral meetings and visits, etc.) and relevant international standards<sup>21</sup>.
- 4.2.9 In the case of overseas incorporated AIs, the general preference of the HKMA is to cooperate and coordinate with the home supervisors, where and to the extent appropriate, in respect of recovery planning and implementation of recovery plans, given the constraints likely to be faced by a foreign bank branch or foreign bank

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<sup>21</sup> The FSB's Key Attributes require that there should be adequate legal gateways in a jurisdiction for the disclosure of non-public information (including bank-specific information) necessary for recovery and resolution planning to domestic and foreign authorities (see Key Attribute 12).



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subsidiary acting otherwise than in alignment with the group recovery plan.

### **4.3 Actions following supervisory assessment**

- 4.3.1 Following the HKMA's review of an AI's recovery plan, any shortfalls and gaps identified should be addressed by the AI in a timely manner. The AI should set out a remedial plan to lay out the necessary remedial actions along with an indicated timeframe for their completion. In the event that an AI has failed to take effective and timely corrective actions voluntarily, the HKMA may take appropriate supervisory actions, taking account of the individual circumstances of the case. These may include, but are not limited to, increase in supervisory intensity in respect of the AI, exercise of the MA's powers under the BO (Part XIA or otherwise) and other relevant regulations (e.g. the Banking (Capital) Rules or Banking (Liquidity) Rules).
- 4.3.2 The HKMA will maintain an ongoing dialogue with the Hong Kong banking industry on recovery planning practices, and will update this guidance as appropriate.



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#### Annex: An illustrative template summarising factors to be assessed in relation to the recovery options

May indicate suitability for handling fast-moving or slow-moving stress events; and colour-code them in terms of ease of execution

Estimation of impact under various scenarios (idiosyncratic stress, market-wide stress, combination...)

Any other expected impact from deploying the option, (e.g. balance sheet, franchise value, rating etc.) may be included as relevant

What are the key risks? Circumstances under which the option might become too risky/difficult to deploy?

Who (or which area) is responsible for deploying this option? Who needs to be involved?

Recovery option	Brief description	CET1, T1 and Total CAR impact	RWA impact	Liquidity impact	Other impact	Timeframe for implementation and realisation of benefits	Risks/hurdles to implementation	Ownership within AI
Option 1								
Option 2								
...								

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